Universal Service Administrative Company

Via Electronic Mail and First-Class Mail

March 15, 2011

Steven VanRoekel
Managing Director
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Response to Letter Concerning USAC Fixed Asset Accounting (DA 11-298)

Dear Mr. VanRoekel:

We received your letter (DA 11-298), dated February 16, 2011, in which you request information concerning the Universal Service Administrative Company's (USAC's) accounting treatment for fixed assets (e.g., furniture, equipment, leasehold improvements, computer hardware and software). Specifically, you request that:

> USAC provide…a legal and accounting justification for recording all fixed assets purchased with [universal service fund (USF)] monies on the USAC books of account rather than the USF books of account. In doing so, please explain how the practice of recording USF assets on the USAC books of account complies with section 254 of the Communications Act of 1934, as amended, Part 54 of the Commission's rules, Commission orders, and with appropriations law principles. Finally, please describe, in detail, the accounting method used by USAC to record all property purchased by USAC contractors (including intellectual property) for which the USAC contractor is entitled to be reimbursed from USF monies.

USAC's responses to your request are provided herein.

USAC Properly Records Fixed Assets On The USAC Books Of Account

USAC is a not-for-profit, Delaware corporation, which was appointed by the Federal Communications Commission (FCC or the Commission) as the permanent administrator of the universal service support mechanisms and the funds associated therewith pursuant to Section 54.701 of the Commission's rules (47 C.F.R. § 54.701). USAC is required by 47 C.F.R. § 54.702(e) to "maintain books of account … in accordance with generally accepted accounting principles." Generally Accepted Accounting Principles (GAAP) require the capitalization of long-lived capital assets that are used to create and distribute an entity's products and services.[1] USAC purchases certain assets in conjunction with performing its role as the administrator of the universal service support mechanisms. USAC is the legal owner of such assets. In accordance with GAAP, USAC properly includes fixed assets and other property that USAC purchases to administer the universal service support mechanisms and the funds associated therewith in its books of account and financial statements. USAC's financial statements, which include fixed assets purchased by USAC, are audited by USAC's external auditors, PricewaterhouseCoopers. PricewaterhouseCoopers issued an unqualified opinion on the 2009 USAC financial statements in accordance with GAAP. USAC management has determined that omitting fixed assets from USAC's books and financial statements would produce a non-GAAP financial statement presentation that is inconsistent with the guidance set forth in FAS 93 (*see supra* note 1), thereby resulting in USAC failing to comply with the requirements of 47 C.F.R. § 54.702(e).

Unlike USAC, the USF is not an entity that has a legally cognizable existence. It is not a corporation or trust, nor is it an agency or department in the federal government. The USF is a set of accounting entries on USAC's books and financial statements. Because it is not a legally cognizable entity, the USF cannot itself own tangible or intangible assets, incur liabilities, conduct transactions, collect funds from contributors to the universal service support mechanisms or make payments to universal service support mechanism beneficiaries.[2] In fact, when USAC collects funds from contributors to the universal

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[1] *See* Financial Accounting Standards Board (FASB), *Accounting Standards Codification (ASC) 360-10-05-3* (establishing the definition of property plant and equipment). *See also,* AICPA Accounting Standards Executive Committee (AcSEC), *Statement of Position 98-1 (SOP 98-1*) (governing the capitalization of computer software developed or obtained for internal use). Financial Accounting Statement (FAS) 93, promulgated by the FASB, emphasizes the importance of ASC 360-10-05-3 for not-for-profit organizations by requiring that depreciation should be recognized in GAAP financial statements for all fixed assets in use by not-for-profit organizations. FAS 93, ¶ 25, states that "[d]epreciation is an essential part of measuring the costs of services provided [by a not-for-profit organization] during a period" and "[o]mitting depreciation produces results that do not reflect all costs of services provided." FAS 93, ¶ 22, states that "[r]eliable information about the cost of assets used by a not-for-profit organization to provide services is useful to resource providers and others in assessing how the organization carried out its services. Resource providers are interested in that information because the services are the end for which the resources are provided and their assessment of whether an organization is efficient and effective in providing services is often significant in their decisions to provide resources to an organization." USAC cannot carry out its appointed duties without the fixtures and equipment necessary to administer the universal service support mechanisms and related funds. Non-recognition of those fixed assets (and consequently, omission of depreciation on those assets) would produce results for USAC that do not reflect the cost of all services provided by USAC and thus, would not result in a GAAP financial statement presentation. Without inclusion of depreciation expense, users of USAC's financial statements would not have reliable information about the cost of assets used by USAC to provide its services, and no clear picture would be presented to those assessing the extent to which USAC is efficient and effective in administering the universal service support mechanisms and related funds.

[2] Although the USF is a set of accounting entries and not a legally cognizable entity, USAC maintains a set of books for universal service funds in compliance with 47 C.F.R. § 54.702(n), which states: "[USAC] shall account for the financial transactions of the Universal Service Fund in accordance with generally accepted accounting principles for federal agencies and maintain the accounts of the Universal Service Fund in accordance with the United States Government Standard General Ledger."

service support mechanisms, pursuant to 47 C.F.R. § 54.706, the invoice sent to the entities required to make contributions lists the amount of contribution due for each of the four universal service support mechanisms. It does not list a payment due for "the USF." USAC holds funds collected from these contributors in an account titled: "Universal Service Administrative Company for the benefit of the USF." USAC is the legal owner of this account.

USAC acquires tangible or intangible property (e.g., computers, software, office supplies, furniture, etc.) or incurs costs (e.g., employee salaries and benefits, travel expenses) in administering the universal service support mechanisms, using funds contributed to the universal service support mechanisms by companies subject to the requirements of 47 C.F.R. § 54.706. When USAC acquires tangible or intangible property, USAC titles that property in USAC's name consistent with the requirements of GAAP discussed above. As discussed further below, neither Congress nor the FCC has ever designated any other structure (*e.g.*, creation of the USF as a legally cognizable entity) for the universal service support mechanisms or funds associated therewith.

USAC's Fixed Asset Accounting Is Consistent With Applicable Law

The universal service administrative structure established by the Commission requires USAC to treat fixed assets in a manner consistent with GAAP. Moreover, the manner in which USAC accounts for fixed assets is consistent with the Communications Act of 1934, as amended, and other applicable laws. The following overview of the administrative structure established by the Commission, and USAC's role and actions it has taken in compliance with this structure, fully describes how USAC's treatment of fixed assets is consistent with the Communications Act of 1934, Part 54 of the Commission's rules, as well as other applicable laws.

The Communications Act of 1934 codified the national policy of universal service. That policy is reflected in the very first section of the statute: "[t]o make available, so far as possible, to all the people of the United States...a rapid, efficient, Nation-wide and world-wide wire and radio communications service with adequate facilities at reasonable charges...."[3] Before adoption of the 1996 Act, universal service was achieved largely through numerous implicit support mechanisms funded within the telephone industry.[4] In the 1996 Act, Congress added section 254 to the Communications Act. Section 254, which was intended to ensure that access to the communications network is affordable and ubiquitous, ratified the use of universal service funding to assist low income consumers and consumers in high cost areas in obtaining affordable telephone service.[5]

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[3] 47 U.S.C. § 151.

[4] *See Comprehensive Review of Universal Service Fund Management, Administration & Oversight, Notice of Proposed Rulemaking,* WC Docket No. 05-195, FCC 05-124, at ¶ 3 (June 14, 2005) (citing *Federal-State Joint Board on Universal Service, Report and Order*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, 8784-85, ¶¶ 10-12 (1997) (*Universal Service Order*)).

[5] *See* 47 U.S.C. §§ 254(b), (j).

It also extended universal service support to schools, libraries, and certain rural health care providers.[6]

Congress placed the regulatory details of implementing section 254 in the hands of the Commission and the Federal-State Joint Board on Universal Service (Joint Board). Congress also gave broad discretion to the Commission, after consultation with the Joint Board, to implement the universal service support mechanisms outlined in the 1996 Act.[7] Further, Congress made clear that universal service support was not a typical government program that would be funded by annually appropriated dollars. To the contrary, funds for universal service support were to be collected by requiring that "[e]very telecommunications carrier that provides interstate telecommunications services, shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service."[8] Congress did not expect the Commission or any other federal agency to pay for universal service support or for administration of universal service, and did not appropriate funds for such a purpose.[9]

In 1996, the Commission, as directed by Congress, issued a Notice of Proposed Rulemaking raising a wide variety of issues and referred them to the newly constituted Joint Board for consideration.[10] Among other things, the Notice suggested that the support mechanisms could be administered (as they had been in the past) by a non-governmental entity and stated that any Administrator selected should be required to operate in an efficient, fair, and competitively neutral manner.[11]

Later that year, the Joint Board provided its recommended decision to the Commission.[12] The Joint Board recommended that the Commission, pursuant to the Federal Advisory Committee Act (FACA),[13] create a universal service advisory board to select and oversee a neutral, third party Administrator of the universal service support mechanisms. According to the Joint Board, the advisory board should select a permanent Administrator through a competitive process. The Joint Board further recommended that the National Exchange Carrier Association, Inc. (NECA), which until that time had been administering the predecessors to section 254's High Cost and Low Income support mechanisms, not automatically be appointed Administrator, but that NECA be permitted

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[6] *See* 47 U.S.C. § 254(h).
[7] *See* 47 U.S.C. §§ 254(a), 410(c).
[8] 47 U.S.C. § 254(d).
[9] *See* S. Rep. No. 104-23, at 94 ("There should be a coordinated Federal-State universal service system to preserve and advance universal service using specific and predictable Federal and State mechanisms administered by independent, non-governmental entities.").
[10] *See Federal-State Joint Board on Universal Service*, CC Docket 96-45, Notice of Proposed Rulemaking and Order Establishing Joint Board, 11 FCC Rcd 18092 (1996).
[11] *See id*. at 18150, ¶ 128.
[12] *See Federal-State Joint Board on Universal Service*, CC Docket 96-45, Recommended Decision, 12 FCC Rcd 87 (1996) (*Joint Board Recommended Decision*).
[13] 5 App. U.S.C. §§ 1 *et. seq.*

to act as Administrator if certain changes were made to address perceived bias. In the interim, however, the Joint Board recommended that NECA be appointed the temporary administrator.[14]

In May 1997, the Commission adopted an order largely following the Joint Board's recommendations regarding administration of the universal service support mechanisms, and determined that NECA should be the temporary administrator.[15] It also agreed to establish a federal advisory committee to select the permanent administrator and established various requirements intended to ensure the independence and integrity of the administrator.

In a separate proceeding, the Commission invited comment on whether NECA should serve, and what changes might be necessary for NECA to serve, as the temporary administrator.[16] Numerous parties expressed concern that NECA could be biased in favor of incumbent local exchange carriers (ILECs) and, therefore, recommended that the Commission take steps to ensure neutrality or choose another administrator.[17] Anticipating these concerns, "NECA proposed that, once the Commission appointed NECA the temporary Administrator and authorized it to commit resources to fulfill its administrative duties, NECA would create a wholly-owned subsidiary, designated as [USAC...that] would have a balanced, representative Board based on Commission recommendations...."[18]

In July 1997, having considered comments favoring NECA, concerns about NECA's neutrality, and NECA's proposed solution, the Commission rejected a competitive bidding model and instead instructed NECA to establish an independent subsidiary—USAC—to temporarily administer the High Cost and Low Income Support Mechanisms as well as to perform billing and collection functions associated with the Schools and Libraries and Rural Health Care Support Mechanisms.[19] The Commission found that "NECA's substantial experience in administering the existing high cost and low-income support mechanisms provides a clear benefit in terms of assuring the operational

[14] *See Joint Board Recommended Decision*, 12 FCC Rcd at 251-252, ¶¶ 829-33. NECA is a not-for-profit association of incumbent local exchange carriers established in 1983 to act primarily as the interstate access tariff filing agent for incumbent local exchange carriers and administrator of interstate access charge revenue pools. Prior to the 1996 Act, NECA also administered the predecessors to the current universal service programs.
[15] *See generally Universal Service Order*, 12 FCC Rcd 8776.
[16] *Changes to the Board of Directors of the National Exchange Carrier Association*,, CC Docket No. 97-21, Notice of Proposed Rulemaking and Notice of Inquiry, 12 FCC Rcd 72 (1997) (*NECA NOI*).
[17] *See, e.g.*, Comments of the National Cable Television Association, CC Docket No. 97-21 (filed Jan. 27, 1997) (suggesting that structural changes to the NECA board could make it an acceptable candidate); Comments of MCI Communications Corporation, CC Docket No. 97-12 (filed Mar. 3, 1997) (arguing against selection of NECA as USF Administrator).
[18] *See Changes to the Board of Directors of the National Exchange Carrier Association, Federal-State Joint Board on Universal Service*, CC Docket Nos. 96-45, 97-21, Report and Order and Second Order on Reconsideration, 12 FCC Rcd 18400, 18407, ¶ 11 (1997) (*USAC Appointment Order*).
[19] *See USAC Appointment Order*, 12 FCC Rcd at 18412, 18416-18417, ¶¶ 19, 27-28.

continuity of these programs."[20] The Commission also directed NECA to establish two independent corporations—the Schools and Libraries Corporation (SLC) and the Rural Health Care Corporation (RHCC)—to administer certain aspects of the support mechanisms for schools, libraries, and rural health care providers.[21]

Subsequently, the General Accounting Office (GAO) (now the Government Accountability Office) reviewed the Commission's instructions to NECA to create the SLC and RHCC. In February 1998, GAO concluded that because Congress had not explicitly directed the Commission to establish the SLC and RHCC, their creation violated the Government Corporation Control Act.[22] Congress later directed the Commission to prepare a report and propose a "single entity" to administer all of the universal service support mechanisms conforming to the GAO's findings.[23]

In April 1998, as part of its *Report to Congress*, the Commission proposed to consolidate SLC and RHCC into USAC and directed those three organizations to submit a plan of reorganization.[24] Given USAC's experience in administering universal support mechanisms, and in order to avoid "a midstream change [that] could be disruptive and wasteful," the Commission informed Congress of its intent to designate USAC as the permanent Administrator. [25] The Commission also reported to Congress that it no longer intended to convene an advisory committee to propose changes in the administration of universal service.[26] Receiving no objections, in November 1998, the Commission approved the plan of reorganization submitted by the three corporations and established the regulatory framework currently applicable to USAC.[27]

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[20] *Id*. at 18417, ¶ 28.
[21] *Id*. at 18430- 18432, ¶¶ 57-60.
[22] *See* Letter from the Office of General Counsel, General Accounting Office, to the Honorable Ted Stevens, United States Senate (Feb. 10, 1998). The Government Corporation Control Act, 31 U.S.C. § 9102, provides that "[a]n agency may establish or acquire a corporation to act as an agency only by or under a law of the United States specifically authorizing the action."
[23] *See* Conference Report on H.R. 3579, H.R. REP. NO. 105-504 (April 30, 1998) (directing the FCC to comply with Section 2003(b) of S. 1768).
[24] *See Report in Response to Senate Bill 1768 and Conference Report on H.R. 3579, Report to Congress*, 13 FCC Rcd 11810, 11815-16, ¶¶ 8-10 (1998) (*Report to Congress*). In early 1997, the FCC sought guidance from GAO as to how to establish an appropriate administration for universal service. *See id.* at 11813, ¶ 5 (citing Letter from Reed E. Hundt, Chairman, FCC, to J. Dexter Park, Asst. Comptroller General, GAO (Jan. 31, 1997)).
[25] *Report to Congress*, 13 FCC Rcd at 11816, ¶ 9.
[26] *See id.* at 11817, ¶ 12 n.35.
[27] *See Changes to The Board Of Directors of the National Exchange Carrier Association, Federal-State Joint Board on Universal Service*, CC Docket Nos. 97-21, 96-45, Third Report and Order in CC Docket No. 97-21, Fourth Order on Reconsideration in CC Docket No. 97-21, and Eighth Order on Reconsideration in CC Docket No. 96-45, 13 FCC Rcd 25058, 25064-65, ¶¶ 12-14 (1998) (*USAC Reorganization Order*) (In a direct response to a challenge by SBC regarding the "lawfulness of USAC," the FCC determined that there was "no statutory impediment to USAC….GAO did not make any findings concerning the establishment of USAC. We thus find that consolidating the administration of universal service into USAC is 'pursuant to the findings of the General Accounting Office.'").

Also included in this regulatory framework are Commission rules that prohibit NECA from directing or controlling USAC: "[USAC] shall have a Board of Directors separate from the Board of Directors of [NECA]," 47 C.F.R. § 54.703(a); "[NECA's] Board of Directors shall be prohibited from participating in the functions of USAC," *Id.*; "The Chairman of the Federal Communications Commission shall review the nominations submitted by industry and non-industry groups and select each director of [USAC's] Board of Directors," 47 C.F.R. § 54.703(c)(3); "Subject to the [FCC] Chairman's approval, the nominee [for the USAC Chief Executive Officer position] shall be appointed," 47 C.F.R. § 54.704(b)(2); "[USAC] shall maintain books of account separate from those of NECA" 47 C.F.R. § 54.702(e). In addition, the FCC has signaled its belief that USAC and NECA are separate entities regardless of USAC's status as a wholly-owned subsidiary of NECA: "[USAC] shall make available to whomever the Commission directs, free of charge, any and all intellectual property, including but not limited to, all records and information generated by or resulting from its role in administering the support mechanisms, if its participation in administering the universal service support mechanisms ends." 47 C.F.R. § 54.702(l).

In July 1998, the Senate expressed the "sense of the Senate" that "[f]ederal and state universal [service] contributions are administered by an independent, non-federal entity and are not deposited into the Federal Treasury and therefore [are] not available for Federal appropriations."[28] The Senate adopted this statement as part of an act repealing a provision of the Balanced Budget Act of 1997, which would have allowed for an appropriation from universal service funds to be repaid later.[29] Universal service funds are designated by the Treasury Department as funds held outside the Treasury; and, because the funds are not in the Treasury, they are not subject to annual appropriations.[30]

In April 2000, the Office of Management and Budget (OMB) reiterated that universal service funds do "not constitute public money pursuant to the Miscellaneous Receipts Statute, 31 U.S.C. § 3302, and [are] appropriately maintained outside the Treasury by a

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[28] 143 CONG. REC. S8213-01, S8214 (daily ed. July 29, 1998) (statement of Sen. Gregg).

[29] The Balanced Budget Act of 1997 initially contained a provision allowing an appropriation from universal service funds for fiscal year (FY) 2001 to be repaid in FY 2002, although the conferees expressed concern about the precedent this provision set and "its possible impacts on universal service in the United States." *See* Balanced Budget Act of 1997, § 3006, Pub. L. No. 105-33, 111 Stat. 257, 269; H.R. REP. NO. 105-217, at 581 (1997), *reprinted in* 1997 U.S.C.C.A.N. 176, 202. This provision was repealed later in the same session, and no money was ever appropriated. *See* Departments of Commerce, Justice and State, the Judiciary, and Related Agencies Appropriations Act of 1998, § 622, Pub. L. No. 105-119, 111 Stat. 2440, 2521 (1998).

[30] *See* 143 CONG. REC. S8213-01, S8214 (daily ed. July 29, 1997) (statement of Sen. Daschle that "the Universal Service Fund is comprised of private fees" and that "there are no Federal tax dollars involved in the universal service fund."); *see also Texas Office of Public Utility Counsel v. FCC*, 183 F.3d 393, 426-27 (5th Cir. 1999), *cert. denied*, 120 S.Ct. 2212 (May 30, 2000) (Universal Service Funds are not federal "revenue" for purposes of Constitutional requirement that "[a]ll Bills for Raising Revenue shall originate in the House of Representatives." [art. I, § 7, cl. 1]).

non-governmental manager."[31] OMB also recognized that Congress intended no change in the preexisting mechanisms for administration of universal service.[32] The Commission has agreed with OMB's analysis, informing GAO that it "concur[s] with OMB's conclusion that the universal service fund is appropriately maintained outside the Treasury by a non-governmental manager, particularly in light of the legal history of the universal service fund."[33] The Commission reaffirmed its view that "the current USAC structure is consistent with congressional intent and conforms with congressional guidance."[34]

USAC collects contributions to, and disburses universal service support under, the four universal service support mechanisms: the High Cost, Low Income, Rural Health Care and Schools and Libraries Support Mechanisms. USAC's functions and responsibilities set forth in Commission orders and regulations include: administering the support mechanisms; billing contributors, collecting contributions, and disbursing universal service funds; maintaining books and records for the universal service support mechanisms, funds associated therewith, and USAC; and reporting quarterly, annually and on an as requested basis to the Commission on its administrative activities.[35] As discussed above, USAC is administering the universal service support mechanisms and the funds associated therewith, consistent and in compliance with the administrative structure established by the Commission, including Section 254 of the Communications Act of 1934, as amended, Part 54 of the Commission's rules, as well as other applicable laws.[36]

The second paragraph of your letter also asks "how the practice of recording USF assets on the USAC books of account complies with *appropriations law principles*" (emphasis added) and cites to the *USAC Appointment Order*, ¶ 82, n.166 . As discussed above, universal service funds are not part of the annual federal government appropriations

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[31] Letter from Robert G. Damus, General Counsel, OMB, to Christopher Wright, FCC General Counsel, at 3 (Apr. 28, 2000) (*April 28 OMB Letter*).
[32] *Id.* at 4.
[33] *See* Letter from William E. Kennard, FCC Chairman, to Michael R. Volpe, Assistant General Counsel, GAO, at 2 (April 28, 2000).
[34] Letter from Andrew Fishel, Managing Director, FCC, to Mark Goldstein, Director, Physical Infrastructure Issues, GAO, at 3 (Jan. 14, 2005) (*Fishel GAO Letter*), *reprinted in* GAO, Telecommunications: Greater Involvement Needed by FCC in the Management and Oversight of the E-Rate Program, GAO-05-151, at 58 (Washington, D.C., Feb. 9, 2005) (*GAO 2005 E-Rate Report*).
[35] *See generally*, 47 C.F.R. §§ 54.701-702.
[36] A more in-depth discussion of USAC's administration of the universal service support mechanisms and the associated funds is provided in USAC's comments *In the Matter of Comprehensive Review of Universal Service Fund Management, Administration and Oversight*, WC Docket No. 05-195, FCC 05-124 (rel. June 14, 2005) available at: http://fjallfoss.fcc.gov/ecfs/comment/view?id=5513322358; and in USAC's comments *In the Matter of Comprehensive Review of Universal Service Fund Management, Administration and Oversight*, WC Docket No. 05-195, FCC 08-189 (rel. Sept. 12, 2008) available at: http://fjallfoss.fcc.gov/ecfs/comment/view?id=5515331448 with USAC reply comments at: http://fjallfoss.fcc.gov/ecfs/comment/view?id=5515337636.

process, and USAC is not a federal agency, government-controlled corporation or other entity of the federal government. USAC is a not-for-profit Delaware corporation that administers the universal service support mechanisms and the funds associated therewith in compliance with Part 54 of the Commission's rules. USAC is unaware of any "*appropriations law principles*" that may apply to USAC's accounting for assets acquired by USAC, or whether it would be appropriate to apply such principles given USAC's status as a non-federal entity. To ensure USAC complies with 47 C.F.R. § 54.702(e), USAC accounts for its acquired assets by using GAAP.

Also, as reflected in the second sentence of paragraph 82 of the *USAC Appointment Order*, the Commission conditioned "NECA's appointment as temporary administrator on NECA and USAC's *agreeing* to the requirements of this Order, including making available, if NECA is not appointed permanent administrator, any and all intellectual property, including, but not limited to, all records and information generated by or resulting from its performance as temporary administrator, to whomever the Commission directs, free of charge.[FN166]" (emphasis added). The referenced footnote states: "Such property includes, for example, databases, processing systems, computer software programs, lists, records, information, or equipment created or purchased and used in the temporary administration of the universal service support mechanisms." The Commission included this language in 47 C.F.R. § 54.702(l) with the reference to NECA omitted. USAC's understanding is that this provision would only become operative if the Commission should determine to end USAC's administration of the universal service support mechanisms. To USAC's knowledge, USAC has taken no action that would serve to frustrate the purpose of this provision, should it become operable.

<u>USAC's Method Of Accounting For Property Purchased By USAC Contractors (Including Intellectual Property) For Which The Contractor Is Entitled To Be Reimbursed</u>

USAC accounts for property it acquires, or for property acquired by contractors on USAC's behalf, in a manner consistent with the discussion set forth above. USAC records such property on USAC's books.

Following is the accounting for a sample transaction in which a $10,000 piece of equipment was acquired, either directly or by a contractor on USAC's behalf. As discussed above, the USF is a set of accounting entries on USAC's books and financial statements, as reflected below.

USAC Books of Account				
	Debit	**Credit**		
To record the initial purchase of the asset:				
Property and Equipment	$10,000			
Accounts Payable		$10,000		

To bill the USF for the purchase of the asset:				
Due from the USF	$10,000			
Deferred Revenue		$10,000		
To depreciate the asset (assume 5 year asset, full year of depreciation)				
Depreciation Expense	$2,000			
Accumulated Depreciation		$2,000		
To recognize revenue equal to expenses (for depreciation)				
Deferred Revenue	$2,000			
Revenue		$2,000		
USF Books of Account (proprietary only)				
	Debit	**Credit**		
To record the initial purchase of the asset:				
Administrative Costs	$10,000			
Accounts payable - USAC		$10,000		
USF Quarterly Crosswalk				
USAC has been directed by the FCC to record certain "on top" adjustments to the crosswalk to reflect fixed assets				
	Debit	**Credit**		
Property and Equipment	$10,000			
Administrative Costs		$10,000		
Accumulated Depreciation		$2,000		
Administrative Costs	$2,000			

Please contact me if you have any questions. We would be happy to meet with you and/or your team to further discuss this information.

Sincerely,

//s// D. Scott Barash

Acting Chief Executive Officer

cc: Sharon Gillett, Chief, Wireline Competition Bureau
(via electronic mail only)